

**CITY OF SHEFFIELD**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS  
AND SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2010**



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**City of Sheffield**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2010)</b>		
Dennis Kingery	Mayor	Jan 2010
Doug Dohlman	Council Member/Mayor Pro tem	Jan 2012
Shirley Brady	Council Member	Jan 2010
Josh Wood	Council Member	Jan 2010
Ken Berding	Council Member	Jan 2012
Norene Schwierjohann	Council Member	Jan 2012
Debra Hartman	Clerk/Treasurer	Indefinite
Brent Symens	Attorney	Indefinite
<b>(After January 2010)</b>		
James Saylor	Mayor	Jan 2012
Ken Berding	Council Member/Mayor Pro tem	Jan 2012
Norene Schwierjohann	Council Member	Jan 2012
Josh Wood	Council Member	Jan 2012
Sean Cameron	Council Member	Jan 2014
Rick Larson	Council Member	Jan 2014
Debra Hartman	Clerk/Treasurer	Indefinite
Brent Symens	Attorney	Indefinite

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**City of Sheffield**

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# **LINES MURPHY & COMPANY, P.L.C.**

Certified Public Accountants

625 Main St.

Osage, IA 50461-1307

Ph. 641-732-5841

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## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Sheffield's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield as of June 30, 2010, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated October 6, 2010 on our consideration of the City of Sheffield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 21 through 23 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Sheffield's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The financial statements for the four years ended June 30, 2007 (which are not presented herein) were audited by other auditors and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Lines Murphy & Company, P.L.C.  
Certified Public Accountants  
Osage, Iowa

October 6, 2010



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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The City of Sheffield provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2010 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 8.1%, or approximately \$79,000, from fiscal year 2009 to fiscal year 2010. Property tax increased approximately \$17,000 as Operating grants and contributions increased approximately \$99,000. Bond and note proceeds increased approximately \$292,000.
- Disbursements of the City's governmental activities increased 27.7%, or approximately \$216,000, in fiscal year 2010 from fiscal year 2009. Public safety, public works and debt service disbursements increased approximately \$98,000, \$77,000 and \$220,000, respectively.
- The City's total cash basis net assets decreased 7.8%, or approximately \$48,000, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased approximately \$16,000 and the assets of the business type activities decreased approximately \$64,000.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

## **BASIS OF ACCOUNTING**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund, 4) the Capital Projects Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

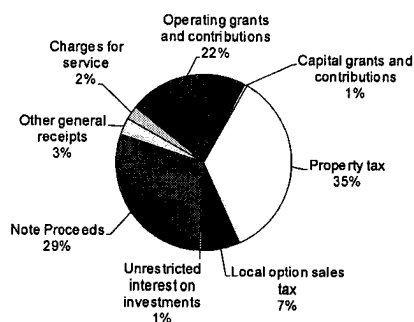
The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

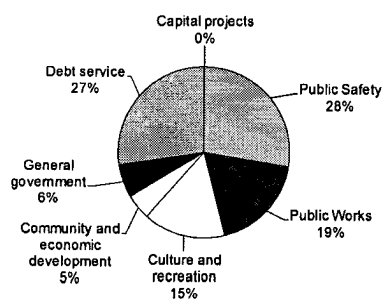
Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$394 thousand to approximately \$410 thousand. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service	\$ 25	22
Operating grants and contributions	230	131
Capital grants and contributions	5	342
General receipts:		
Property tax	370	353
Local option sales tax	76	66
Unrestricted investment earnings	5	2
Bond and note proceeds	309	17
Other general receipts	33	42
Total receipts	1,053	975
Disbursements:		
Public safety	275	177
Public works	184	107
Culture and recreation	153	143
Community and economic development	48	235
General government	63	66
Debt service	273	53
Capital projects	-	-
Total disbursements	996	781
Change in cash basis net assets before transfers	57	194
Transfers, net	(41)	(34)
Change in cash basis net assets	16	160
Cash basis net assets beginning of year	394	234
Cash basis net assets end of year	\$ 410	394

Receipts by Source



Disbursements by Function



The City's total receipts for governmental activities increased 8.1%, or approximately \$79,000. The total cost of all programs and services increased approximately \$216,000, or 27.7%, with no new programs added this year. The significant increase in disbursements was primarily the result of debt service payments made for the purchase of a new fire truck.

The cost of all governmental activities this year was approximately \$997 thousand compared to approximately \$781 thousand last year. However, as shown in the Statement of Activities and Net Assets on pages 10-11, the amount taxpayers ultimately financed for these activities was only \$736 thousand because some of the cost was paid by those directly benefited from the programs (\$26,000) or by other governments and organizations which subsidized certain programs with grants and contributions (\$235,000). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2010 from approximately \$495,000 to approximately \$261,000, principally due to receiving a significant amount of community development block grant proceeds in 2009. The City paid for the remaining "public benefit" portion of governmental activities (\$736,000) with taxes (some of which could only be used for certain programs) and other receipts, such as debt proceeds, interest and other general receipts.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2010	2009
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 90	92
Sewer	232	235
General receipts:		
Unrestricted interest on investments	1	4
Total receipts	<u>323</u>	<u>331</u>
Disbursements:		
Water	124	107
Sewer	304	290
Total disbursements	<u>428</u>	<u>397</u>
Change in cash basis net assets before transfers	(105)	(66)
Transfers, net	41	34
Change in cash basis net assets	<u>(64)</u>	<u>(32)</u>
Cash basis net assets beginning of year	219	251
Cash basis net assets end of year	<u>\$ 155</u>	<u>219</u>

Total business type activities receipts for the fiscal year were approximately \$323 thousand compared to approximately \$331 thousand last year. The cash balance decreased approximately \$64,000 from the prior year and total disbursements for the fiscal year increased 7.8% to approximately \$428 thousand.

## **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As the City of Sheffield completed the year, its governmental funds reported a combined fund balance of \$410,378, an increase of more than \$16,000 above last year's total of \$394,158. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$29,889 from the prior year to \$101,375. This decrease was due to primarily to repairs made to the Sheffield Swimming Pool.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$63,781 from the prior year to \$174,146. This increase was due to no expenditures from this fund during the fiscal year.
- The Special Revenue, Tax Increment Financing Fund cash balance decreased \$38,657 to \$14,931 during the fiscal year. This decrease was due to transfers for and debt service payments made on the Sewer and TIF Sewer Cost Overrun Revenue Notes.

## **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Enterprise, Water Fund cash balance decreased \$33,124 to \$45,813, due primarily to an increase in operating expenses.
- The Enterprise, Sewer Fund cash balance decreased \$30,846 to \$109,585, due primarily to debt service payments made of approximately \$111,000.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 9, 2010 and resulted in increases in intergovernmental receipts, other financing sources and operating disbursements for both governmental and business type activities. These increases were to provide for the purchase of the new fire truck and additional disbursements in certain City departments subsidized by grant proceeds. The second amendment was approved on June 14 2010, for additional other financing sources and disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$6,064 more than budgeted. Total disbursements were \$53,619 less than the amended budget. This was primarily due to actual public works and and business type activities expenditures being less than anticipated.

The City exceeded the amount budgeted in the debt service function for the year ended June 30, 2010 due to budgeting payments made on the short term interim Fire Truck note out of the public safety function rather than out of the debt service function.

## DEBT ADMINISTRATION

At June 30, 2010, the City had \$1,688,000 in bonds and other long-term debt outstanding, compared to \$1,699,000 last year, as shown below.

	Outstanding Debt at Year-End	
	(Expressed in Thousands)	
	June 30,	
	2010	2009
General obligation bonds	\$ 70	105
General obligation notes	137	117
Revenue notes	1,481	1,477
Total	\$ 1,688	1,699

Debt had a modest decrease as a result of scheduled payments made during the fiscal year. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation and TIF debt of \$274,000 is well below its constitutional debt limit of approximately \$2.585 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Sheffield's elected and appointed officials considered many factors when setting the fiscal year 2011 budget, tax rates and fees that will be charged for various City activities. One of those factors is the economy along with the City Council facing continued state funding cutbacks.

These indicators were taken into account when adopting the budget for fiscal year 2011. Amounts available for appropriation in the operating budget are approximately \$950 thousand, a decrease of 10% under the final fiscal year 2010 budget. Budgeted disbursements are expected to drop approximately \$100,000. The City has added no major new programs or initiatives to the fiscal year 2011 budget.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$35,000 by the close of fiscal year 2011.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Hartman, City Clerk, P.O. Box 252, Sheffield, Iowa 50475.

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## **Basic Financial Statements**

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City of Sheffield

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 275,148	2,660	31,980	-
Public works	184,016	900	86,268	-
Culture and recreation	152,937	18,366	28,322	5,000
Community and economic development	47,855	-	83,399	-
General government	62,442	-	-	-
Debt service	273,037	2,670	-	-
Capital projects	-	-	-	-
Total governmental activities	995,435	24,596	229,969	5,000
Business type activities:				
Water	123,883	90,656	-	-
Sewer	303,757	231,911	-	-
Total business type activities	427,640	322,567	-	-
Total	\$ 1,423,075	347,163	229,969	5,000
<b>General Receipts:</b>				
Property tax and other city tax levied for:				
General purposes				
Debt service				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Miscellaneous				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Restricted:				
Expendable:				
Streets				
Urban renewal				
Debt service				
Other purposes				
Unrestricted				
<b>Total cash basis net assets</b>				

See notes to financial statements.



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(240,508)	-	(240,508)
(96,848)	-	(96,848)
(101,249)	-	(101,249)
35,544	-	35,544
(62,442)	-	(62,442)
(270,367)	-	(270,367)
-	-	-
(735,870)	-	(735,870)
-	(33,227)	(33,227)
-	(71,846)	(71,846)
-	(105,073)	(105,073)
(735,870)	(105,073)	(840,943)
289,142	-	289,142
39,857	-	39,857
40,938	-	40,938
75,781	-	75,781
4,632	103	4,735
309,000	-	309,000
33,573	-	33,573
(41,000)	41,000	-
751,923	41,103	793,026
16,053	(63,970)	(47,917)
394,158	219,368	613,526
\$ 410,211	155,398	565,609
\$ 33,556	-	33,556
14,931	-	14,931
11,858	10,940	22,798
248,658	-	248,658
101,208	144,458	245,666
\$ 410,211	155,398	565,609

City of Sheffield

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Governmental Funds

As of and for the year ended June 30, 2010

	General	Road Use Tax	Special Local Option Sales Tax
<b>Receipts:</b>			
Property tax	\$ 241,553	-	-
Tax increment financing collections	-	-	-
Other city tax	3,731	-	75,781
Licenses and permits	2,670	-	-
Use of money and property	2,842	-	-
Intergovernmental	99,748	82,207	-
Charges for service	16,605	-	-
Miscellaneous	30,891	-	-
Total receipts	398,040	82,207	75,781
<b>Disbursements:</b>			
Operating:			
Public safety	245,024	-	-
Public works	102,721	72,314	-
Culture and recreation	145,938	-	-
Community and economic development	-	-	-
General government	62,442	-	-
Debt service	171,427	-	-
Capital projects	-	-	-
Total disbursements	727,552	72,314	-
Excess (deficiency) of receipts over (under) disbursements	(329,512)	9,893	75,781
<b>Other financing sources (uses):</b>			
Bond & note proceeds	309,000	-	-
Operating transfers in	1,500	-	-
Operating transfers out	(11,044)	-	(12,000)
Total other financing sources (uses)	299,456	-	(12,000)
Net change in cash balances	(30,056)	9,893	63,781
Cash balances beginning of year	131,264	23,663	110,365
Cash balances end of year	\$ 101,208	33,556	174,146
<b>Cash Basis Fund Balances</b>			
Reserved:			
Debt service	-	-	-
Unreserved:			
General fund	101,208	-	-
Special revenue funds	-	33,556	174,146
Capital projects fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 101,208	33,556	174,146

See notes to financial statements.

Revenue			Permanent		
Tax			Cemetery		
Increment	Employee	Debt	Perpetual	Nonmajor	Total
Financing	Benefits	Service	Care		
-	43,858	39,857	-	-	325,268
40,938	-	-	-	-	40,938
-	-	-	-	-	79,512
-	-	-	-	-	2,670
-	1,790	-	-	341	4,973
-	-	-	-	58,016	239,971
-	1,060	-	-	-	17,665
-	1,600	-	-	-	32,491
40,938	48,308	39,857	-	58,357	743,488
-	30,124	-	-	-	275,148
-	8,981	-	-	-	184,016
-	6,999	-	-	-	152,937
-	-	-	-	47,855	47,855
-	-	-	-	-	62,442
38,595	-	63,015	-	-	273,037
-	-	-	-	-	-
38,595	46,104	63,015	-	47,855	995,435
2,343	2,204	(23,158)	-	10,502	(251,947)
-	-	-	-	-	309,000
-	-	20,914	-	2,130	24,544
(41,000)	-	-	-	(1,500)	(65,544)
(41,000)	-	20,914	-	630	268,000
(38,657)	2,204	(2,244)	-	11,132	16,053
53,588	6,490	14,102	31,960	22,726	394,158
14,931	8,694	11,858	31,960	33,858	410,211
-	-	11,858	-	-	11,858
-	-	-	-	33,858	135,066
14,931	8,694	-	-	-	231,327
-	-	-	-	-	-
-	-	-	31,960	-	31,960
14,931	8,694	11,858	31,960	33,858	410,211

## City of Sheffield

Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Proprietary Funds

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 90,656	231,911	322,567
Operating disbursements:			
Business type activities	123,883	192,755	316,638
Excess (deficiency) of operating receipts over (under) operating disbursements	(33,227)	39,156	5,929
Non-operating receipts (disbursements):			
Interest on investments	103	-	103
Debt service	-	(111,002)	(111,002)
Net non-operating receipts (disbursements)	103	(111,002)	(110,899)
Excess (deficiency) of receipts over (under) disbursements	(33,124)	(71,846)	(104,970)
Other financing sources (uses):			
Operating transfers in	-	41,000	41,000
Operating transfers out	-	-	-
Total other financings sources (uses)	-	41,000	41,000
Net change in cash balances	(33,124)	(30,846)	(63,970)
Cash balances beginning of year	78,937	140,431	219,368
Cash balances end of year	\$ 45,813	109,585	155,398
<b>Cash Basis Fund Balances</b>			
Reserved for debt service	\$ -	10,940	10,940
Unreserved	45,813	98,645	144,458
Total cash basis fund balances	\$ 45,813	109,585	155,398

See notes to financial statements.

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### **Required Supplementary Information**

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City of Sheffield

Notes to Financial Statements

June 30, 2010

**(1) Summary of Significant Accounting Policies**

The City of Sheffield is a political subdivision of the State of Iowa located in Franklin County. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Sheffield has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Franklin County Assessor's Conference Board and Franklin County Emergency Management Commission.

**B. Basis of Presentation**

**Government-wide Financial Statement** - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Expendable restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for the accumulation of local option sales taxes collected by the State to be expended in accordance with statutory and local provisions.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Employee Benefits Fund is used to account for property taxes levied for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Permanent, Cemetery Perpetual Care Fund is used to account for the maintenance of the City Cemetery.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function.

**(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.



Interest rate risk – The City’s investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

**(3) Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, revenue bonds and state revolving loans are as follows:

Year Ending June 30,	General Obligation Bonds		General Obligation Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 35,000	3,850	27,345	8,328	98,500	45,817	160,845	57,995
2012	35,000	1,925	23,800	7,114	100,500	42,168	159,300	51,207
2013	-	-	24,800	6,062	69,000	38,460	93,800	44,522
2014	-	-	25,300	4,976	71,000	36,390	96,300	41,366
2015	-	-	15,000	3,869	73,000	34,260	88,000	38,129
2016-2020	-	-	20,500	4,134	400,000	137,070	420,500	141,204
2021-2025	-	-	-	-	464,000	73,350	464,000	73,350
2026-2027	-	-	-	-	205,000	9,270	205,000	9,270
Total	\$ 70,000	5,775	136,745	34,483	1,481,000	416,785	1,687,745	457,043

The Code of Iowa requires principal and interest on general obligation bonds and notes be paid from the Debt Service Fund.

Essential Corporate Purpose General Obligation Bonds

The resolution providing for the issuance of the general obligation bonds include the following provision:

- (a) At the option of the City, the bonds are subject to redemption and prepayment on any date, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot, at a price of par plus accrued interest to call date, by giving proper notice.

Urban Renewal Tax Increment Financing Revenue Notes

The City issued \$134,000 of urban renewal tax increment financing (TIF) revenue notes in November 2007 for the purpose of defraying a portion of the costs of various construction of certain wastewater treatment facilities within the urban renewal district. The notes are payable solely from the TIF receipts generated by increased property values in the City’s TIF district and credited to the Special Revenue, Urban Renewal Tax Increment Fund in accordance with Chapter 403.19 of the Code of Iowa. TIF receipts are generally projected to produce 100 percent of the debt service requirements over the life of the notes. The proceeds of the urban renewal tax increment financing revenue notes shall be expended only for purposes which are consistent with the plans of the City’s urban renewal area. The notes are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City. Total principal and interest remaining on the notes is \$72,095, payable through December 2011. For the current year, interest paid and total TIF receipts were \$5,095 and \$40,938, respectively.

Sewer Revenue Notes

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,600,000 of sewer revenue notes issued in February 2007.

Proceeds from the notes provided financing for the purpose of paying costs of the construction of certain wastewater treatment facilities. The notes are payable solely from sewer customer net receipts and are payable through 2027. The total principal and interest remaining to be paid on the notes is \$1,825,690. For the current year, principal and interest paid and total customer net receipts were \$107,310 and \$39,156, respectively.

The resolution providing for the issuance of the revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate sewer revenue note sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) At the option of the City, the notes shall be subject to optional redemption at a price of par plus accrued interest (i) on any interest payment date after the ten (10) year anniversary of the note issue date.
- (d) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

#### **(4) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Regular plan members are required to contribute 4.30% of their covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2010, 2009 and 2008 were \$18,287, \$16,927 and \$15,177, respectively, equal to the required contributions for each year.

#### **(5) Other Postemployment Benefits (OPEB)**

Plan Description - The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 5 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - Contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$406 for single coverage and \$995 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$38,882 and plan members eligible for benefits contributed \$4,167 to the plan.

**(6) Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2010, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 3,336

This liability has been computed based on rates of pay in effect at June 30, 2010.

**(7) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Handicap Access	\$ 1,500
Debt Service	Special Revenue: Local Option Sales Tax	12,000
	General	<u>8,914</u>
		20,914
Special Revenue: Block Grant	General	2,130
Enterprise: Sewer	Special Revenue: Tax Increment Financing	<u>41,000</u>
Total		<u>\$ 65,544</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**(8) Risk Management**

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Contracts**

At June 30, 2010, the City had contracts outstanding for lawn care and water tower repair of \$16,968 and \$35,364, respectively.

**(10) Deficit Balance**

The Special Revenue, Block Grant Fund had a deficit balance of \$833 at June 30, 2010. The deficit will be eliminated by transfers.

City of Sheffield

Budgetary Comparison Schedule  
of Receipts, Disbursements, and Changes in Balances –  
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 325,268	-	325,268
Tax increment financing collections	40,938	-	40,938
Other city tax	79,512	-	79,512
Licenses and permits	2,670	-	2,670
Use of money and property	4,973	103	5,076
Intergovernmental	239,971	-	239,971
Charges for service	17,665	322,567	340,232
Miscellaneous	32,491	-	32,491
Total receipts	<u>743,488</u>	<u>322,670</u>	<u>1,066,158</u>
Disbursements:			
Public safety	275,148	-	275,148
Public works	184,016	-	184,016
Culture and recreation	152,937	-	152,937
Community and economic development	47,855	-	47,855
General government	62,442	-	62,442
Debt service	273,037	-	273,037
Capital projects	-	-	-
Business type activities	-	427,640	427,640
Total disbursements	<u>995,435</u>	<u>427,640</u>	<u>1,423,075</u>
Excess (deficiency) of receipts over (under) disbursements	(251,947)	(104,970)	(356,917)
Other financing sources, net	<u>268,000</u>	<u>41,000</u>	<u>309,000</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	16,053	(63,970)	(47,917)
Balances beginning of year	<u>394,158</u>	<u>219,368</u>	<u>613,526</u>
Balances end of year	<u>\$ 410,211</u>	<u>155,398</u>	<u>565,609</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Net
		Variance
316,292	316,292	\$ (8,976)
38,695	38,695	(2,243)
10,228	10,228	(69,284)
950	950	(1,720)
18,600	18,600	13,524
122,557	251,557	11,586
379,000	379,000	38,768
46,000	46,000	13,509
932,322	1,061,322	(4,836)
156,260	463,260	188,112
85,850	199,850	15,834
146,667	162,667	9,730
-	49,000	1,145
57,020	67,020	4,578
90,708	90,708	(182,329)
-	-	-
370,250	445,250	17,610
906,755	1,477,755	54,680
25,567	(416,433)	(59,516)
-	300,000	(9,000)
25,567	(116,433)	(68,516)
484,467	484,467	(129,059)
510,034	368,034	\$ (197,575)

City of Sheffield

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$571,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amount budgeted in the debt service function.

City of Sheffield

Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds

As of and for the year ended June 30, 2010

			Special
	Police Seizure	Swimming Pool Improvements	Veterans Memorial
Receipts:			
Property tax	\$ -	-	-
Tax increment financing	-	-	-
Other city tax	-	-	-
License and permits	-	-	-
Use of money and property	48	188	105
Intergovernmental	-	-	-
Charges for service	-	-	-
Miscellaneous	-	-	-
Total receipts	48	188	105
Disbursements:			
Operating:			
Public safety	-	-	-
Public works	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General Government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	-	-	-
Excess (deficiency) of receipts over (under) disbursements	48	188	105
Other financing sources (uses):			
Bond & note proceeds	-	-	-
Operating transfers in	-	-	-
Operating transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in cash balances	48	188	105
Cash balances beginning of year	7,728	13,357	4,203
Cash balances end of year	\$ 7,776	13,545	4,308
<b>Cash Basis Fund Balances</b>			
Unreserved:			
Special revenue funds	7,776	13,545	4,308
Capital project fund	-	-	-
Permanent fund	-	-	-
Total cash basis fund balances	\$ 7,776	13,545	4,308

See accompanying independent auditor's report.

Revenue				
Block Grant	Handicap Access	I-Jobs	Walking Trail	Total
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
48,954	-	4,062	5,000	58,016
-	-	-	-	-
-	-	-	-	-
48,954	-	4,062	5,000	58,357
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
47,855	-	-	-	47,855
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
47,855	-	-	-	47,855
1,099	-	4,062	5,000	10,502
-	-	-	-	-
2,130	-	-	-	2,130
-	(1,500)	-	-	(1,500)
2,130	(1,500)	-	-	630
3,229	(1,500)	4,062	5,000	11,132
(4,062)	1,500	-	-	22,726
(833)	-	4,062	5,000	33,858
(833)	-	4,062	5,000	33,858
-	-	-	-	-
-	-	-	-	-
(833)	-	4,062	5,000	33,858



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City of Sheffield  
Schedule of Indebtedness  
Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds:			
2001 Essential Corporate Purpose	Apr 1, 2001	5.50 %	\$ 310,000
General Obligation Notes:			
Police Car	Mar 30, 2009	4.25 %	\$ 16,733
Fire Truck Bridge Loan	Aug 12, 2009	4.75	105,000
Fire Truck	Nov 23, 2009	3.85	150,000
Public Works Truck	Feb 12, 2010	5.00	54,000
Total			
Revenue Notes:			
Sewer	Feb 8, 2007	3.00 %	\$ 1,600,000
Urban Renewal Tax Increment Financing (TIF)	Nov 19, 2007	5.00	134,000

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
105,000	-	35,000	70,000	5,775	-
16,733	-	8,188	8,545	725	-
-	105,000	105,000	-	1,427	-
-	150,000	65,000	85,000	1,709	-
-	54,000	10,800	43,200	818	-
\$ 16,733	309,000	188,988	136,745	4,679	-
1,477,000	-	63,000	1,414,000	44,310	-
100,500	-	33,500	67,000	5,095	-
\$ 1,577,500	-	96,500	1,481,000	49,405	-

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**City of Sheffield**

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City of Sheffield  
Bond and Note Maturities

June 30, 2010

General Obligation Bonds		
Year Ending June 30,	2001 Corporate Purpose Issued Apr 1, 2001	
	Interest Rates	Amount
2011	5.50 %	\$ 35,000
2012	5.50	35,000
Total		<u>\$ 70,000</u>

General Obligation Notes							
Year Ending June 30,	Police Car Issued Mar 30, 2009		Fire Truck Issued Nov 23, 2009		Public Works Truck Issued Feb 12, 2010		Total
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2011	4.25 %	\$ 8,545	3.85 %	\$ 8,000	5.00 %	\$ 10,800	27,345
2012		-	3.85	13,000	5.00	10,800	23,800
2013		-	3.85	14,000	5.00	10,800	24,800
2014		-	3.85	14,500	5.00	10,800	25,300
2015		-	3.85	15,000		-	15,000
2016		-	3.85	15,500		-	15,500
2017		-	3.85	5,000		-	5,000
Total		<u>\$ 8,545</u>		<u>\$ 85,000</u>		<u>\$ 43,200</u>	<u>136,745</u>

Revenue Notes					
Year Ending June 30,	Urban Renewal TIF Issued Nov 19, 2007		Sewer Issued Feb 8, 2007		Total
	Interest Rates	Amount	Interest Rates	Amount	
2011	5.00 %	\$33,500	3.00 %	\$ 65,000	98,500
2012	5.00	33,500	3.00	67,000	100,500
2013		-	3.00	69,000	69,000
2014		-	3.00	71,000	71,000
2015		-	3.00	73,000	73,000
2016-20		-	3.00	400,000	400,000
2021-25		-	3.00	464,000	464,000
2026-27		-	3.00	205,000	205,000
Total		<u>\$ 67,000</u>		<u>\$ 1,414,000</u>	<u>1,481,000</u>

See accompanying independent auditor's report.

City of Sheffield

Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds

For the Last Seven Years

	2010	2009	2008	2007
Receipts:				
Property tax	\$ 325,268	311,027	280,024	274,822
Tax increment financing collections	40,938	41,816	-	187
Other city tax	79,512	71,566	65,868	40,098
Licenses and permits	2,670	1,955	3,165	1,545
Use of money and property	4,973	2,342	3,792	4,488
Intergovernmental	239,971	472,648	237,796	243,478
Charges for service	17,665	6,512	13,136	25,802
Miscellaneous	32,491	50,768	51,834	22,789
Total	<u>\$ 743,488</u>	<u>958,634</u>	<u>655,615</u>	<u>613,209</u>
Disbursements:				
Operating:				
Public safety	\$ 275,148	177,159	142,758	140,155
Public works	184,016	106,910	82,674	136,165
Culture and recreation	152,937	143,410	200,844	159,073
Community and economic development	47,855	234,677	-	-
General government	62,442	66,405	75,462	53,568
Debt service	273,037	53,308	158,385	41,000
Capital projects	-	-	1,420,066	649,077
Total	<u>\$ 995,435</u>	<u>781,869</u>	<u>2,080,189</u>	<u>1,179,038</u>

See accompanying independent auditor's report.

2006	2005	2004
290,475	206,654	234,816
30,821	100,009	57,913
26,772	24,780	21,886
2,535	2,205	2,065
5,212	2,791	3,581
215,761	115,255	113,452
31,121	27,596	27,392
48,674	21,004	35,120
651,371	500,294	496,225

182,360	109,662	144,562
306,928	94,125	96,602
173,147	157,783	152,616
115,125	-	-
53,630	55,496	52,927
166,362	67,700	59,675
-	-	-
997,552	484,766	506,382

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**City of Sheffield**

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# **LINES MURPHY & COMPANY, P.L.C.**

Certified Public Accountants

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**Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards**

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Sheffield, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 6, 2010. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City of Sheffield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Sheffield's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Sheffield's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Sheffield's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings as items II-A-10, II-B-10, II-C-10, II-D-10 and II-E-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies considered to be significant deficiencies.



### Compliance and Other Matters

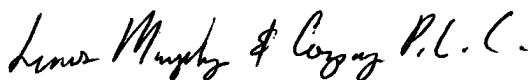
As part of obtaining reasonable assurance about whether the City of Sheffield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Sheffield's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Sheffield's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Sheffield and other parties to whom the City of Sheffield may report, including federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Sheffield during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



Lines Murphy & Company, P.L.C.  
Certified Public Accountants  
Osage, Iowa

October 6, 2010

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**City of Sheffield**

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City of Sheffield

Schedule of Findings

Year ended June 30, 2010

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.

**Part II: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

- II-A-10 Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. The City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-10 Posting of Financial Transactions – Receipts and disbursements were not always posted to the correct accounts. In addition, City net fund balance was out of balance \$14,316. This was the result of one-sided entries, entries posted to the prior fiscal year and entries not being made at all. Adjustments were made and the audited financial statements reflect the correct amounts.

Recommendation – More care should be exercised when posting transactions to reduce the incidence of mispostings. Further, the accounts should be reconciled on a timely basis to identify errors made.

Response – In the future, more care will be exercised when posting transactions and the accounts will be properly reconciled.

Conclusion – Response acknowledged.

- II-C-10 Financial Management Information – Monthly bank reconciliations (including a list of outstanding checks) are not reconciled to the book balance. Further, the customer accounts receivable billing and payments do not reconcile to the book balances.

Recommendation – A monthly accounts receivable reconciliation and a reconciliation of the book and bank balances should be prepared and retained. Any variances should be investigated and resolved. A listing of outstanding checks should be prepared monthly and retained.

Response – The City will establish a system to reconcile book and bank balances.

Conclusion – Response acknowledged.

City of Sheffield

Schedule of Findings

Year ended June 30, 2010

- II-D-10 Incorrect Check Numbers – We noted numerous check numbers per the General Ledger that do not agree with the actual check number. It appears that this was caused by improperly loading the checks and/or checks sticking in the printer.

Recommendation – The City should exercise care when loading checks and when errors in check numbers are identified, adjustments should be made to the financial records to match the General Ledger to the actual check numbers.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- II-E-10 Invoices – Invoices were not properly cancelled to prevent use.

Recommendation – Checks should be prepared only from invoices. The invoices should then be marked “paid” to prevent making duplicate payments.

Response – We will do so in the future.

Conclusion – Response acknowledged.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2010

**Part III: Other Findings Related to Required Statutory Reporting:**

- III-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Further, the amended budget was not adopted by May 31 as required by Chapter 24.9 of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapters 24.9 and 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We incorrectly budgeted for some debt service payments out of the public safety function. When applicable, the budget will be amended in the future by May 31 as required.

Conclusion – Response accepted.

- III-B-10 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in the Attorney General’s opinion dated April 25, 1979.
- III-C-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-10 Business Transactions – No business transactions between the City and City officials or employees were noted.
- III-E-10 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- III-F-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- III-G-10 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City’s investment policy were noted.

City of Sheffield

Schedule of Findings

Year ended June 30, 2010

- III-H-10 Revenue Bonds and Notes – The resolution providing for the issuance of the 2007 Sewer Revenue Notes requires that user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year. For the fiscal year ending June 30, 2010, net revenues in the Enterprise, Sewer Fund were only 35% of the principal and interest payments on the notes.

Recommendation – The City should evaluate current rates to ensure net revenues are 110% of the amount of principal and interest payments falling due.

Response – We will comply with this recommendation.

Conclusion – Response accepted.

- III-I-10 Payment and Issuance of General Obligation Notes – Certain general obligation notes were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part “Moneys pledged or available to service general obligation debt, and received from sources other than property tax, must be deposited in the debt service fund.”

Further, procedures for notes sold during the year were not in compliance with Chapters 75, 384 and 403.9 of the Code of Iowa.

Recommendation – The City should transfer from the General Fund to the Debt Service Fund for future funding contributions. Payment of the notes should then be disbursed from the Debt Service Fund. The City should seek legal counsel when issuing new debt to ensure they are in accordance with the requirements set forth in the Code of Iowa.

Response – We will do so.

Conclusion – Response accepted.

- III-J-10 Financial Condition – The Special Revenue, Block Grant Fund had a deficit balance of \$833 at June 30, 2010.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – The deficit will be eliminated.

Conclusion – Response accepted.